


Honors Personal Finance


CAR BUYING GUIDE



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Cost of Purchase

- ❖ It is said:
 - ❖ The car payment is the curse of the middle class.
- ❖ If a person is patient and willing to make a few sacrifices, a car note isn't needed.



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Affording the Car

- ❖ To Get A Car Loan
 - ① You need to have a past credit history,
 - ② Find a lender that does manual underwriting,
 - ③ You need to have someone co-sign or **You can pay cash.**

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Affording the Car


- ❖ A **Co-Signer** - is someone who is willing to guarantee your ability to pay off the loan. If you fail to pay they are legally responsible for the sum of the loan and will have to pay it in full.
- ❖ Being a co-signer is highly discouraged.



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Affording the Car

- ❖ It is better if you can make the purchase yourself.
- ❖ The best method is to pay in full, in cash.
- ❖ This puts you on the proper path of **NO DEBT.**



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Affording the Car

- ❖ The best way to accomplish this is by using Dave Ramsey's 10 month plan.
- ❖ **STEP 1:** Calculate the average monthly car payment in the U.S.

❖ \$475/Month

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Affording the Car

STEP 2: You take that \$475 (the average car payment) save it every month for 10 months.

And then pay for a used car (with cash!), instead of giving it to the bank.

- ❖ After 10 months of doing this, you'll have \$4,750 to use for a used car.

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Affording the Car

STEP 3: Repeat & 10 months later you would have another **\$4,750** to put toward a car. You could probably sell your current car for **\$8,500**—meaning you now have **\$13,250** to pay for a car, after just 30 months.

- ❖ Now your in **NEW CAR** territory.

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Affording the Car

STEP 4: Repeat until you have the car you always wanted.

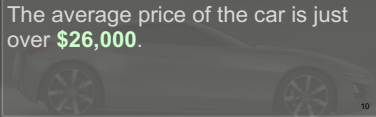
- ❖ The bottom line with this exercise is simply this—**what could you do with that \$475 if you weren't paying for the car every month?**

❖ Anything you wanted!

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Calculating a Car Payment

Recent statistics show that 1/3 of car buyers sign up for an average 67 month loan at an average interest rate of **4.36%**.
The average price of the car is just over **\$26,000**.



Calculating a Car Payment

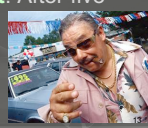
Calculating a monthly car payment
 $(TC(1+r/12)^m) / m$
 $(26,000(1 + .0436 / 12)^{67}) / 67$
 $(26,000(1.0363)^{67}) / 67$
 $(26,000 \times 1.2750) / 67$
 $33,151.52 / 67$
\$494.80 Monthly Car Payment (Note)

Calculating a Car Payment

With a Down payment
 $(TC-D(1 + r/12)^m) / m$
 $(26,000-4,000(1 + .0436 / 12)^{67}) / 67$
 $(26,000-4,000(1.0363)^{67}) / 67$
 $(22,000 \times 1.2750) / 67$
 $28,051.29 / 67$
\$418.68 Monthly Car Payment (Note)

Affording the Car

What the car dealer won't tell you is that **your awesome new car loses about 25% of its value the instant you drive it off the lot**. After five years, your car has lost about **35-40%** of its value!



Affording the Car

- ❖ What does that mean?
- ❖ After six years, you've paid almost **\$33,000** for a **\$26,000** car, which is now worth *maybe* **\$6,000**.


Not a good deal.

Affording the Car

- ❖ Think about it this way:
- ❖ Invest that \$475/month into a good mutual fund with a 12% rate of return, you have over **\$100,000** in 10 years!
- ❖ At 20 years, you would have made roughly **\$470,000**.

Affording the Car

- ❖ And at 30 years? That mutual fund would be worth **\$1.6 million!**



The Leasing Option

Leasing the "New" Option

- ❖ **Do the Dealer Math the Breakdown:**
- ❖ If you (rent) lease a car with a value of \$22,000 for three years, and then turn it in, the car is only valued at \$10,000, someone has to cover the \$12,000 loss.

The Leasing Option

Leasing the "New" Option


- ❖ **Do the Dealer Math the Breakdown:**
- ❖ Your lease payments are designed to cover the \$12,000 in 36 months plus a profit, this will equal over \$333.00 a month.

❖ Bargain?!?!

The Leasing Option

Leasing the "New" Option

- ❖ **Did You Know?**
- ❖ The Auto Industry does not have to disclose the amount of interest they are charging you with a lease.



The Leasing Option


Leasing the "New" Option

- ❖ **Did You Know?**
- ❖ This is usually monitored by the FTC but they don't have the power here because you are renting not purchasing your car.
- ❖ The average leasing interest rate is **14%**.

The Leasing Option

Leasing the "New" Option

- ❖ **Don't Forget the Tiny Numbers**
- ❖ If you go over the allotted miles you are charged around 10-17 cents a mile.



The Leasing Option

Leasing the "New" Option

- ❖ **Don't Forget the Tiny Numbers**
- ❖ Excessive wear and tear will penalize you too. Now you have to pay money just to walk away for your car rental agreement.

The Leasing Option

The Extras

BUT...

"We also offer"

Affording the Car

Auto Dealer Extras

- Extended Warranties
- Fabric and Paint Protection
- Rustproofing
- Maintenance Plans
- Ding Protection
- GAP Insurance

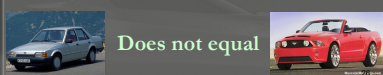
Affording the Car

- **Guaranteed Auto Protection (GAP) insurance** - If a loss occurs, gap car insurance will pay the difference between the actual cash value (ACV) of the vehicle and the current outstanding balance on your loan or lease.

Total Car Cost

First time auto buyers often overlook the cost of insurance when purchasing a vehicle. **Sometimes your monthly insurance payment can equal your car payment.**

Does not equal



Cost of Insurance

Factors that affect insurance costs:

- Gender (males cost more)
- Residence (some cities have more accidents)
- Grades (good student discount)
- Type of vehicle (sporty models cost a lot more)
- Insurance coverage and limits
- Driving record

Male Car Accidents



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Female Car Accidents



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Monthly Car Budget

You should consider the following factors when planning a monthly budget for your vehicle:

- Gas
- Oil changes
- Maintenance
- Insurance
- Car payment



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